

**EXAMINATION OF CERTAIN FINANCIAL OPERATIONS AND
INTERNAL POLICIES AND CONTROLS OF
THE CITY OF BEDFORD**



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MIKE HARMON
AUDITOR OF PUBLIC ACCOUNTS

October 29, 2020

Joe Robinson, Mayor
City of Bedford
147 Victory Ave.
Bedford, KY 40006

Dear Mayor Robinson:

The Auditor of Public Accounts (APA) has completed its examination of the City of Bedford (City). This report summarizes the procedures performed and communicates the results of those procedures.

The purpose of this examination was not to provide an opinion on the financial statements, but to ensure appropriate processes are in place to provide strong fiscal management and oversight of City activities and to review specific issues brought to the attention of this office.

Detailed findings and recommendations based on our examination are presented in this report to assist management in implementing corrective action. Overall, these findings indicate the following:

- Failure to properly maintain City financial and operational records.
- Lack of guidance and oversight to ensure accountability of City financial operations.
- Inconsistent processes and questionable spending, including the award of employee bonuses from public funds.

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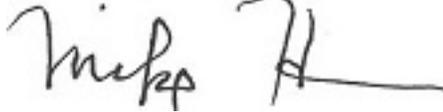
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- Increased risk of error or fraud due to a lack of internal controls over the City sewer billing and collection process as well as lax oversight of employee leave and personnel policies enacted.

We appreciate your assistance and the assistance of your staff throughout the examination. If you have any questions or wish to discuss this report further, please contact me or Tiffany Welch, Executive Director, Auditor of Public Accounts.

Thanks and God Bless.

A handwritten signature in black ink, appearing to read "Mike H", with a long horizontal line extending to the right.

Mike Harmon
Auditor of Public Accounts

FINDINGS AND RECOMMENDATIONS

Finding 1: The City Did Not Properly Maintain its Financial and Operational Records, Limiting Examination Procedures and Providing Limited Guidance to City Personnel.

The City did not maintain adequate documentation to support its financial and operational activity for the period January 1, 2017 through September 30, 2019. Initial requests for records were met with delayed response by the former City Clerk and records made available onsite by the City were limited and disorganized. City ordinances established by the City Commission were located in various places around the City's office, and City Commission meeting minutes were in disarray. Personnel policies provided to auditors as current policy had been revoked by action of the City Commission and replaced by a new set of policies in 2017, but the newly adopted personnel policies could not be located. The condition of City records, coupled with the lack of established policies and procedures and turnover in key City personnel significantly limited examination procedures. Maintaining official records in this manner and failing to provide sufficient guidance to personnel increases the City's risk of fraud due to the lack of accountability established by the City.

Financial Records

Review of the City's process for collecting sewer and trash collection usage fees were limited due to the City's lack of records. The City's process allows the City Clerk to make manual adjustments to accounts, but the City does not maintain documentation of each adjustment nor are the adjustments approved by anyone other than the Clerk. No documentation to support adjustments and the lack of a secondary approval, makes it impossible to determine if adjustments were valid and properly applied to accounts. Without proper documentation to support these adjustments, the City's risk for error, misstatement, and fraud increases. See Finding 4 for further discussion of City sewer adjustments by the former City Clerk.

Additionally, no historical records of rental fees for the Community Center for the period July 1, 2017 through September 30, 2019 were available for review. The City collects fees for renting the City's Community Center. The current City Clerk estimates approximately half of the fees collected are cash receipts. Lack of sufficient documentation, particularly when cash receipts are likely, increases the risk for fraud. While the current City Clerk indicated that she provides a copy of the receipt to the customers, no reconciliation or review of the revenue and usage of the Community Center is performed to determine if deposits are accurate.

Preliminary examination procedures were performed for City financial activity occurring during the period January 1, 2017 to June 30, 2018. The request to the City for documentation to support a sample of 54 City expenditures from the period took the City five months to address. The support ultimately provided by the now former City Clerk was incomplete, including eight transactions with no support provided and 10 transactions for which the support was simply a note or memo written to explain the expenditure. In two instances, the support provided did not agree to the expenditure in amount or payee. On October 1, 2019, the APA advised the City that additional

examination procedures would be conducted and the time period examined was expanded to consider financial activity through September, 30, 2019.

In response to a second request to examine supporting documentation for an additional 93 expenditures during the period July 1, 2017 through September 30, 2019, the City presented three banker boxes of unorganized documentation. The documentation had been stored in a filing cabinet used by the former City Clerk. Upon inspection, the records included random receipts, tax documentation, and various other documents in no particular order. Due to the condition of the records, review of expenditures was limited as support could not be readily identified for the sampled transactions. See Finding 3 for discussion of questionable City spending identified.

Ordinances and Policies

Review of the City's ordinance binder found ordinances, such as those passed to establish the City's budget, were not maintained in order. Additionally, personnel policies adopted by the City in October 2017, though referenced as an attachment to the Municipal Order adopting the new policies, were not attached or maintained with the Municipal Order. City Ordinance No. 14 series 2017, dated October 17, 2017, fully repealed the City's personnel policies. New personnel policies were adopted by the City Commission on October 26, 2017 through Municipal Order No.1 series 2017. However, policies provided to auditors as the City's current policy contained the repealed policies, and a set of policies matching the description of the new policies adopted could not be found.

As discussed in more detail in Finding 5, personnel policies provided by the Mayor contained conflicting statements further complicating the understanding of existing City personnel policy. Due to the inconsistencies it was difficult to identify whether certain payments made to the former City Clerk for accrued leave balances were allowable. Without properly retaining this policy, the City has provided ineffective guidance for its operations and has potentially permitted unallowable financial activity to occur.

In examining financial processes for the period July 1, 2017 through September 30, 2019, such as the City's processes for the collection of various City revenues, the current City Clerk's knowledge was limited. The City Clerk stated that she was trained by the former City Clerk to complete certain tasks, but never trained to complete an entire process. As noted in Finding 2, the City's process for recording and releasing liens was inconsistent. Attempts to address issues identified through that process, were unsuccessful as the City Clerk was unsure how property tax bills were determined delinquent or when the liens should be placed on property. Furthermore, the former City Clerk did not make herself available for an interview and the former Mayor was only generally aware of the process. The current Mayor was not aware of the delinquent property tax process or the City's lack of recording delinquent liens for 2019. In reviewing and discussing the City's Sewer Billing and Collection process, the City Clerk was more generally aware of the process as she had assisted the former Clerk more directly in the process in the past.

Without documenting City policy and procedures, transitioning from one administration to another or one employee to another makes it difficult to maintain consistency in City operations. Policies and procedures establish expectations and provide guidance to City personnel on how to perform

certain functions. Often that guidance is also necessary to assist the City in meeting certain legal obligations and ensure fair and consistent treatment to individuals. Without clear guidance, the process to be followed is left to interpretation of the employee performing the function and can place the City at a greater risk for errors and inconsistencies as evidenced in other findings within this report.

Payroll and Personnel Records

Attempts were made to also examine the City's payroll process but a limited number of timesheets and payroll records were available. Furthermore, timesheets presented were incomplete, lacking sufficient detail such as the month or year, and limited supervisory review was evidenced. The City was unable to provide complete personnel or payroll records, making it impossible to determine if pay or withholdings were properly calculated and submitted to the correct reporting agencies. Lack of the updated personnel policy established through Municipal Order No.1 Series 2017 hindered determining if leave was accrued and used properly. See Finding 5 for further discussion of the City's lax oversight of employee time reporting and payroll.

Recommendations

We recommend the City of Bedford:

- Develop written policies and procedures governing its financial operations. When developing policies and procedures, the City should ensure adequate internal controls are established. Once developed, the City should ensure City personnel impacted by the policies and procedures are notified of the established guidance. Furthermore, we recommend policies and procedures established are reviewed periodically to address any concerns over high risk areas.
- Establish an organized system for retaining its financial and operational records. This system should ensure all records establishing City operational rules and regulations or documenting financial activity of the City are maintained in a manner by which records are readily identifiable and available for review.
- Develop a process to reconcile its Community Center rental receipts to deposits to ensure all funds received are appropriately deposited and accounted for in City accounts.
- Review its current personnel policies and revise the policies to reflect current City operations and eliminate any inconsistent policies. Again, the City should ensure City personnel are notified of the established guidance and the City should periodically review its policies for necessary updates.

See Findings 3, 4, and 5 for additional recommendations related to the City's expenditure process, sewer adjustments, and payroll.

Finding 2: City Delinquent Property Tax Liens Were Not Consistently and Appropriately Recorded.

The City did not consistently record liens for delinquent property taxes for tax years 2015 through 2018. Review of these tax records also identified a number of other irregularities including liens placed on property though taxes were paid by the property owners, an instance when a related party's tax bill was forgiven by the City with no documentation to adequately explain the action, and the City did not retain support for all liens filed. Additionally, the City does not have an established process or policy to ensure property liens are recorded properly when delinquent taxes are owed to the City. Written policies, if followed, should ensure liens are appropriately and consistently applied and reduce the risk of errors, particularly when employee turnover occurs.

Delinquent Property Tax Statutes

Pursuant to KRS 92.280, cities of home rule class, such as the City of Bedford, shall levy an ad valorem tax each year on all real and personal property within the city's corporate limit. Taxes may be collected directly by the city and penalties enforced by procedures authorized under KRS 91.484 to 91.527. For cities that opt to collect their own taxes, such as the City of Bedford, KRS 91A.070 requires the city to establish certain procedures by ordinance, such as due dates, billing, payments, discounts and penalties. Under KRS 91.487, if delinquent taxes remain unpaid after 6 months from the due date, the city "may file suit in the Circuit Court against such land or lots to enforce the lien of the city created under KRS 91.560." Once a suit is commenced, "the person desiring to have the land released before judgment, in addition to the original taxes, interest and cost including attorney's fees, shall pay to the collector all necessary costs incurred in the court where the suit is pending."

While these statutes establish the foundation upon which a city is to collect property taxes and handle delinquent accounts, City records identify that the City did not establish all the elements required by KRS 91A.070. The City lacked documentation supporting the City Commission's adoption of tax rates for taxing years 2016 and 2017. These records were identified as missing, where ordinances establishing tax rates for 2015 and 2018 were maintained in the ordinance binder. As previously mentioned in Finding 1, the ordinance book was in disarray and extremely unorganized. It is unclear if these ordinances were not properly maintained or if this documentation existed at all. Incomplete or unorganized documentation increases the likelihood of error and non-compliance. See Finding 7 relating to the City's failure to maintain ordinances as required by KRS 83A.060

Additionally, though the City opted to collect its own taxes, as allowed per KRS 91A.070, no evidence was found to indicate that the City had established by ordinance the procedures for the collection of ad valorem taxes, the penalties and interest for the late payment or nonpayment of taxes, and an amnesty program for the forgiveness or reduction of accumulated penalties and interest.

Delinquent Property Tax Review

City property tax records reviewed were maintained in a binder and filed by tax year. A review of City records for tax year 2015 through 2018 found the City typically stamped individual property tax bills “PAID IN FULL” and “Received (date)” when property owners made payment. When liens are recorded by the City of Bedford due to delinquent property taxes, those liens are filed at the Trimble County Clerk’s Office in the subsequent year. Figure 1 identifies the number of property liens recorded by the City and the number of additional property liens that should have been recorded based on City and the Trimble County Clerk’s Office records for the 2015, 2016, 2017, and 2018 tax years.

Figure 1: Number of Delinquent Property Taxes with a Lien Recorded and Number of Delinquent Property Taxes without a Lien Recorded by the City for Tax Years 2015-2018

Tax Year	Delinquent Taxes with a Lien Recorded	Delinquent Taxes without a Lien Recorded
2015	8	5
2016	13	7
2017	1	18
2018	0	21
Totals	22	51

Source: APA, based on documentation provided by the City of Bedford and the Trimble County Clerk’s Office.

As shown in Figure 1, the City did not consistently record liens on all properties with unpaid property taxes. According to the former Mayor, liens were not recorded for delinquent property tax bills under \$10, as it was not fiscally feasible. Review of City tax records identified only 18 of the 51 delinquent tax bills in which a lien was not filed were less than the \$10 threshold. The reason as to why liens above the \$10 threshold were not consistently recorded is unknown. However, it should be noted that an inconsistent process could indicate favoritism or preferential treatment and increases the risk of fraud. Also, the date by which liens are typically recorded could not be determined, as the 2015 delinquent property tax liens were placed May 25, 2016, the 2016 liens were placed October 6, 2017, the 2017 liens were placed May 21, 2018, and no liens had been placed on the 2018 delinquent property taxes in 2019. According to the City Clerk, 2018 delinquent property tax liens were not recorded until March 10, 2020.

In addition to the City failing to consistently file tax liens for delinquent property taxes, a number of other irregularities were identified in review of the City property tax records and County Clerk’s list of liens recorded and released. In one instance, a lien recorded by the City for unpaid 2017 property taxes on May 21, 2018 related to a tax bill which was documented in City records as paid on October 5, 2017, seven months before the lien was recorded. Per KRS 434.155, filing a lien when the person “knows or should have known” that the claim was false is a felony offense.

Additional irregularities identified included:

- Liens were placed on two properties for unpaid 2015 property taxes on May 27, 2016. The City's property tax records document full payment for both properties was received on the same day the liens were recorded at the County Clerk's office. Neither of these liens were released. Additionally, one lien was not recorded properly. Per the Trimble County Clerk, a lien is recorded for each individual addressed on the tax bill. However, the lien was only recorded for one of the two taxpayers.
- A total of three liens recorded in 2016 lacked supporting documentation, as the property tax bills were not maintained in the City's 2015 property tax binder.
- No documentation to support the payment of the former Mayor's 2015 tax bill could be located in the City's tax binder.
- The 2016 tax records document a delinquent tax payment was received in full on November 22, 2017 to release the lien recorded by the City on October 6, 2017. However, according to the lien report this lien was not released.
- The City exempted taxes owed on a former City Commissioner's 2017 tax bill. The tax bill states only a portion of the real estate is exempt and the tax still owed on the property totals \$20.25. However, the documentation indicates no payment was processed or received, as "exempt" is handwritten across the face of the tax bill.
- A 2018 tax bill identified no payment was processed or received by the City, as "exonerated" is handwritten across the face of the document indicating that the tax bill was adjusted so no tax might have been due. Both the current and former Mayor could not provide clarification as to what "exonerated" meant in reference to City property tax bills and why the City did not collect payment.
- The City did not file any liens in 2019 on properties for non-payment of 2018 taxes.

City Property Tax Process

Beyond the general guidance and authority provided to cities by state law as it relates to assessing and collecting ad valorem taxes, the City does not have a standard documented process to collect and record property tax bill payments or to ensure payments are properly recorded and subsequent property tax liens are filed or released. Between calendar year 2015 and 2020, the City has twice incurred turnover in the City Clerk position. The current City Clerk had no prior experience with the City's process of collecting unpaid property taxes and as such was unable to explain past City practices. Personnel turnover can create a loss in institutional knowledge, exemplifying the need for established policies and procedures. See Finding 1 discussing the City's need for established policies.

Due to the potential legal matters identified, this finding will be referred to the Kentucky Office of Attorney General.

Recommendations

We recommend the City of Bedford:

- Properly maintain all property tax bills and related payments to ensure records are complete. These records should properly reflect amounts owed to the City for delinquent taxes, payments received from property owners, and adequate support and approval for any exemptions granted.
- Develop written policies and procedures for the City's actions required to collect all property tax bill payments, including past due payments and the process surrounding the recording and release of liens.
- Provide training and guidance to the City Clerk concerning the necessary procedures required to collect and document property tax bill payments along with the recording and releasing of subsequent property tax liens by the City.
- Work with its attorney and/or the Trimble County Clerk to review all liens to ensure they are properly recorded.

Finding 3: The City Expended Funds Without Proper Documentation and Incurred Questionable Expenses, Including the Awarding of Employee Bonuses in Violation of Section 3 of the Kentucky Constitution.

Though a review of City spending was significantly limited due to the condition of City records, as explained in Finding 1, a number of questionable expenditures were identified. Questionable spending by the City between January 1, 2017 and September 30, 2019 which could be reviewed included employee bonuses, donations, fundraisers, and personal expenditures. Also, documentation provided to support select expenditures did not clearly detail the purpose of the expense or identify what was purchased. In one instance, the support identified an additional expense incurred by a City Commissioner for smoking while staying in a non-smoking hotel room. Public funds should be spent for the benefit of taxpayers and not for purposes that appear personal in nature.

Bonuses

Between December 20, 2017 and January 9, 2019, the City awarded approximately \$1,175 in bonuses to City employees and contractors. Individual bonus amounts each year varied between \$75 up to \$150 per individual and check memo lines clearly identified the payments to these individuals as a “bonus” or “xmas bonus.” The award of bonuses to individuals from public funds generally violates of Section 3 of the Kentucky Constitution.

Section 3 of the Kentucky Constitution states:

All men, when they form a social compact, are equal; and no grant of exclusive, separate public emoluments or privileges shall be made to any man or set of men, except in consideration of public services...

In discussing bonuses with the current Mayor, he noted that he had not awarded a bonus in 2019 as such awards were unallowable by law. Instead of awarding employee bonuses, the Mayor hosted a holiday dinner for City officials, personnel, spouses, and other guests. The holiday dinner, hosted at a restaurant on December 13, 2019, cost the City \$429 for 15 individuals, including 4 spouses and 1 guest. In *Funk v. Milliken*, 317 S.W.2d 49 (Ky. 1958) Kentucky’s highest court determined public expenses should be “reasonable in amount, beneficial to the public, and not predominately personal to the officer.” While a holiday meal is a kind gesture, it is not a necessary public expense, particularly when attendees include a select few non-City personnel.

Donations and Fundraisers

Review of City records identified donations and purchases of fundraising items from City funds. Despite a lack of supporting documentation, four donations were identified, three by descriptions documented in check memos. These four donations, totaling approximately \$650, were made between July 10, 2017 and January 15, 2019. The first donation identified, made on July 10, 2017, was paid to the former City Mayor from the City’s Cemetery Fund account for nearly \$400. The check memo line for this payment to the City Mayor documents the purpose as “Boys football

donation.” The three other donations identified by City records were made from the City’s General Fund account and paid to various organizations.

Documentation provided by the City for one sampled expenditure identified the expense of \$246 as a purchase from a local high school fundraiser. Through inquiry of City personnel, it was confirmed that the student identified on the fundraising sales sheet provided by the City is related to the former City Clerk. Documentation provided to support a \$27 payment to a cheerleading group from the same local high school on July 27, 2018, consisted of a handwritten note dated August 5, 2019. The note stated, “To Whom It May Concern: The City of Bedford purchased doughnuts from Bedford Elementary BETA for \$27.00 in the check #2298.” It is obvious, based on the date of the note provided, that support for this expense was not retained by the City but rather was created in response to the APA’s request for documentation. Furthermore, the documentation provided to support this expense does not agree to the check payee.

Other Questionable Spending

Expenditures analyzed also identified personal spending from City funds. In November 2017, City bank records indicate nearly \$150 was paid from the City’s General Fund account to purchase flowers through two separate transactions. Support for both transactions was identified in City records; however, no explanation was documented to identify the purpose of the purchases. Both checks were signed by the former City Clerk and former Mayor. According to the former Mayor, flowers purchased from one vendor on November 15, 2017, for \$100 were to express appreciation to the City Attorney and as good luck for her new job. Again, while this is a kind gesture it appears to be more personal in nature and not necessary and as such it would be more appropriate for such purchases to be paid for through personal funds rather than public funds.

Another expenditure that appeared to be more personal in nature related to a hotel stay for four City officials in January 2017. The supporting hotel invoice for the expenditure was provided by the City but no explanation for the stay was documented. While the hotel stay may have been related to official business, the clearly personal aspect of this expense was an additional charge of \$250 incurred by a City Commissioner for smoking in a non-smoking room.

Recommendations

We recommend the City of Bedford:

- Ensure all purchases have a direct public purpose, are necessary, and do not provide individual personal benefit to employees or others.
- Develop a formal written policy defining prohibited expenses in an effort to provide guidance to City personnel and to protect the interest of the City taxpayers.
- Develop procurement policies that contain the required procedures and documents for the payment and approval of expenditures. These policies should require detailed invoices and receipts to support an expense and to ensure that the City has a record of the goods

and services purchased. Documentation to support an expenditure should also include the purpose of the expense, date, and supervisory approval.

- Refrain from the use of public funds for holiday meals and other more personal expenses. If a holiday meal or other personal expense is desired to show appreciation to City officials and City personnel, we recommend the use of personal funds to cover the expense.

Finding 4: The City Lacks Sufficient Internal Controls Over its Sewer Billing and Collection Process.

Weak internal controls exist over the City's sewer billing and collection process, including lack of employee oversight and failure to segregate incompatible duties of employees. The City Clerk is responsible for billing utility customers, while also having the ability to adjust utility accounts due to billing errors without authorization from the Mayor. When incompatible duties cannot be segregated, compensating controls, such as additional direct oversight, must be implemented to offset any weaknesses. However, no documented compensating controls exist. Poor internal controls and inadequate segregation of duties increase the risk of misappropriation of assets and errors. These practices, along with limited oversight, make detecting errors, fraud, or abuse difficult, and put the City's resources at risk of fraud.

Billing Adjustments

While documenting the City's process for sewer billing and collections, it was identified that all City utility billing adjustments are not reviewed or approved by a secondary reviewer. Though the City has no written policies and procedures established to govern this process, the City Clerk advised that it was the City's practice for plumbing leak adjustments to be approved by the Mayor. City customers are allowed up to two swimming pool fill adjustments per year, but these adjustments and billing error adjustments do not require prior authorization or secondary approval. Instead, the City Clerk who generates monthly billing invoices is also able to adjust customer utility accounts without oversight.

In Calendar Year (CY) 2019, the City recorded a total of \$24,142 in adjustments to customer utility accounts, where only \$4,084 required authorization from the Mayor. Adjustments can negatively impact the City's financial statements and without authorization or review the risk of errors or misappropriation of assets increases. Furthermore, providing limited oversight and relying on one employee to perform all functions in a process increases the likelihood of significant issues being overlooked for an extended period of time.

Collections

In addition to generating monthly billing invoices and having the authority to initiate the majority of adjustments without secondary approval, the City Clerk is responsible for handling the collections process and making deposits. The City accepts sewer bill payment by cash, check, credit/debit card, and ACH. The City Clerk approximated that 50 percent of funds received in the office are cash payments. Receipt of cash is a high risk area for theft and misappropriation. The City's lack of oversight and failure to segregate these incompatible duties creates increased opportunities for fraudulent activity to occur.

Recommendations

We recommend the City of Bedford:

- Evaluate its business functions and develop and implement sufficient internal controls to provide better oversight and accountability to ensure strong internal controls exist. Internal controls should provide appropriate segregation of duties for financial-related job functions. If segregation of incompatible duties is not possible due to staff size or budget limitations then compensating controls should be established.
- Establish written policies and procedures to provide guidance and oversight of its sewer billing and collection process. Once policies and procedures are established, they should be distributed to employees who are involved in this process to ensure their understanding.
- Require all sewer and water adjustments be reviewed and approved by a secondary review and approved adjustments be presented periodically to the City Commission to evaluate the potential impact on City funds.

Finding 5: The City Did Not Maintain Sufficient Documentation to Support its Payroll Expenses and Lacked Oversight of Employee Leave and Personnel Policies.

For the period of July 1, 2017 through September 23, 2019, the City did not require properly documented employee timesheets, leave requests, or overtime requests to adequately support its payroll. The City also had no official record of accrued leave or leave time taken by employees and did not properly deduct payroll withholdings from employees pay and bonuses. Additionally, one former employee received payout of accrued leave balances despite no official record of accrued balances and no provision for such payments in policy. Such lax oversight of payroll and benefits increases the risk for fraudulent time reporting. It also provides little accountability to taxpayers and creates an unnecessary additional financial burden to the City.

Timesheets

In addressing specific concerns expressed to the APA, timesheets submitted by the former City Clerk for the period July 1, 2017 through September 23, 2019 were requested and reviewed. Timesheets provided were incomplete, often having no dates to identify the pay period or time period of work performed, no employee signature, and no supervisory signatures. Of the 135 timesheets provided, approximately 10% of the timesheets contained sufficient information to identify the related year in which the work was performed and half of those were from 2016, predating the beginning of the time period for which timesheets were being reviewed by the APA. Approximately 84% of the timesheets submitted for the former City Clerk did not contain an employee signature or a name on the timesheet and nearly 96% did not contain evidence of supervisory review or approval. The only approvals documented were on six timesheets from 2016.

Timesheets submitted by the former City Clerk often included random notes indicating work performed, such as “2 hrs cemetery” without beginning and ending times to identify when the work occurred. Due to the incomplete nature of the timesheets and the way work time was recorded on the timesheet, it was not always clear how overtime hours were calculated. The time documented in random notes on the timesheet, often indicated additional work performed, leading to overtime reported by the former City Clerk. City policy states that overtime is to be approved by the Mayor in advance; however, no documentation was provided to evidence prior approval of overtime granted by the Mayor or former Mayor. The current Mayor stated that he implemented a new system of tracking work time after taking office; however, the timesheets for the former City Clerk were never reviewed and approved by the Mayor and no required overtime preapprovals were documented.

Accrued Leave Balances

As discussed in Finding 1, it is unclear what personnel policies actually exist as the City does not have record of the policies adopted by the Commission in 2017. In the absence of the more recently adopted policies, review of City payroll and leave time usage was based on the older policies presented by the City in response to request for City personnel policies.

Review of City records for the period July 1, 2017 through September 30, 2019 identified that the former City Clerk received 12 payments, totaling \$7,526, for payout of accrued leave balances. Personnel policies presented did not specifically provide for payout of accrued sick time and contained conflicting statements on the payout of accrued vacation days. Payroll records indicate that the former City Clerk did not take any time off for vacation or sick leave and was the only City employee paid for their accrued leave balances. The City provided no supporting documentation to indicate approval for these payouts other than canceled checks. Figure 2 represents a schedule of all accrued leave balance payments to the former City Clerk during this period.

Figure 2: Schedule of Accrued Leave Balance Payments to former City Clerk in FY 2018 through FY 2020

Check #	Date	Amount	Leave Type
2049	11/17/2017	\$ 509.20	Vacation
2077	12/8/2017	994.75	Personal and Sick
2103	1/5/2018	605.98	Sick
2124	2/1/2018	680.87	Sick
2190	4/11/2018	680.82	Sick
2196	4/17/2018	459.50	Personal and Sick
2264	6/13/2018	642.65	Sick and Vacation
2294	7/2/2018	505.06	Vacation
2446	12/12/2018	505.06	Vacation
2549	4/5/2019	668.94	Personal and Sick
2591	5/24/2019	547.69	Sick and Vacation
6096	9/4/2019	725.14	Vacation
Total:		\$ 7,525.66	

Source: APA, based on City records, including processed checks and pay stubs.

Sick Leave

Per City policy, Sick leave “may be accumulated at the rate of one (1) day per month” following certain stipulations. Those stipulations allow unused sick leave to be accumulated with no limit, require a physician’s note when an employee uses sick leave beyond three (3) consecutive work days, and leave to be used in one-half day increments. The policy does not specifically allow for payout of accrued sick time; rather, it states “[u]nless otherwise stipulated by these policies, sick leave must be used for illness of the employee or a member of the employee’s immediate family.” The only alternative use for sick leave in the City policies provided relates to Military Leave. The policy states, “[a]n employee may elect to take accrued annual or sick time instead of time off without pay for unpaid military leave.” Inquiry with the current City Clerk verifies that the City does allow payout of employee sick leave. As reflected in Figure 2, eight of the 12 payments of accrued leave to the former City Clerk included payment of sick leave.

Personal and Vacation Leave

In addition to one (1) day of sick leave per month, City policy provides full-time City personnel with two (2) days of personal leave time and a varying number of days of annual leave based on

an employee's years of service at the City. Personal days may be accrued and carried forward into the next year, up to 12 months, but vacation days expire at the end of the calendar year. The policy specifically states "[t]here will be no pay for unused vacation days and no carrying forward of vacation days." Per the documentation provided, the City's personal leave policy section was last revised June 16, 2015, and its vacation policy section was last revised July 19, 2016.

The personal leave and vacation leave sections of policy do not identify the allowance for payout of these specific accumulated balances. However, a new section of policy dated January 16, 2018, and generically entitled *Personnel Policies*, states "[e]mployees may sell their vacation days or personal days back to the city with approval of the personnel director (Mayor)." This newer section of policy creates a conflict, particularly as it relates to paying an employee for unused vacation leave time. While it is possible that the City has adopted policies that provide clear guidance on these matters, the policies presented and currently followed by the City as its official personnel policies are conflicting and provide ineffective guidance for City personnel. Based on the policies provided, it does not appear that the former City Clerk was eligible to ever receive payout of sick leave balances, and it is unclear if additional payments for accumulated personal and vacation leave hours were permissible.

As noted, the *Personnel Policies* section dated January 16, 2018, requires the Mayor's approval for such payments. The only approvals documented for these and other payroll or benefit payments were officials' signatures applied to checks. City checks were often signed by the City Clerk along with a City official. The Mayor initially did not recall signing any checks allowing the payout of accrued leave, stating that the former City Clerk "never brought me anything relating to her pay, or vacations to be approved." When approached with a check dated April 5, 2019 for the payment of unused personal and sick leave, the Mayor confirmed his signature on the check though he did not recall the circumstances surrounding the payment. The remaining two checks written during the current Mayor's term were co-signed by a City Commissioner.

Leave Balances

Further complicating attempts to analyze payments made to the former City Clerk is the fact that the City did not have a centralized tracking of employee leave accrual, usage, or balances. Prior to January 2020, employees were responsible for tracking their sick, personal, and vacation leave usage and balances. As such, it is not possible to determine based on the City's records how much time the former City Clerk, or any other City employee had accrued that could be used at any given point in time. Had the City maintained proper records of benefits accrued, an analysis of the former Clerk's balances could have been performed to identify if the Clerk had accrued that much time or had the balances remaining to be paid out. Due to the condition of City records and the City's failure to independently track employee leave balances, the Mayor stated that each employee started with a "clean slate" starting January 1, 2020.

Withholdings

The City was not able to provide documentation of employee payroll withholdings, W-4 forms, or any other employee personnel record information for the period examined, despite City Personnel Policies provided indicating personnel records should be maintained for at least a period of 15

years after employment ends. However, handwritten ledgers documenting withholdings for tax years 2017 and 2018 were provided by the CPA auditing the City's FY 2018 financial statements. These records indicated federal withholdings were not consistently deducted from employees' pay, no withholdings were taken from bonuses awarded, and no FICA taxes were calculated for a \$300 stipend for insurance paid to employees monthly. Additionally, during the examination City records identify that the City has had continuous issues with timely submission of its quarterly employer tax reports. Between July 10, 2018 and April 16, 2019, the city was notified of owing Unemployment Insurance a total of \$325 in late fees for the fourth quarter of 2017 and the second and fourth quarter of 2018.

Finally, in August 2019, the City received a letter from the IRS regarding over \$21,000 in unpaid federal taxes and associated penalties and interest due for tax periods December 31, 2016 through December 31, 2017. The Mayor has advised that the City is working with a tax professional to address its unpaid federal taxes, penalties, and interest. While the City has taken action to address some of the issues identified throughout this finding, opportunities still exist to strengthen the City's controls over its payroll and reporting processes.

Recommendations

We recommend the City of Bedford:

- Consider implementing a system to document employee leave and overtime requests and preapprovals. These documents should be retained, along with timesheets, to support payroll and accrued leave balances. Records to support City payroll and employee benefits should be maintained in accordance with the City's policies.
- Require employees to record the specific start and end times for hours worked on their timesheet. If an employee's work schedule varies or the employee is claiming overtime, the City should require the employee to clearly document the time of day they are working so that the reviewer may perform an adequate analysis of the claim and ensure the employee is performing specific duties at the time acceptable to the City.
- Review and revise its current personnel policy to eliminate conflicting guidance as identified in this finding. Once a revised policy is drafted it should be presented to the City Commission for approval. Finally, once adopted by the City Commission, this policy should be retained by the mayor as the official Custodian of City records and distributed to City employees.

Finding 6: The City Failed to Provide Quarterly Budget to Actual Reports to the City Commission as Required by KRS 91A.030, and Meeting Materials Are Not Provided in Advance of Commission Meetings.

The City does not provide budget to actual comparisons to the City Commission as part of its routine financial reporting. Instead, City Commissioners receive a list of expenses for the month and a summary of activity for each City account at monthly meetings. KRS 91A.030 requires cities to establish a budget each year and to present its governing body with budget to actual spending comparisons on at least a quarterly basis. Such comparisons assist the governing body to accurately gauge the health of a city's finances and provide accountability to city taxpayers. Without such reporting, the City Commission cannot ensure that it is making well informed decisions regarding the City's operations and the City's overall financial condition is less transparent.

City Commissioners stated that they are typically provided financial reports, along with minutes from the previous meeting, at each monthly Commission meeting. However, no budget to actual comparisons are provided. Just as a budget establishes spending priorities and parameters for an organization, budgetary comparisons are a tool to assist decision makers in monitoring the organization's progress towards meeting goals and determining whether resources should be reallocated. Without this information, the Commission can not readily identify when the City is spending or operating outside the parameters the Commission has established.

KRS 91A.030(11) requires periodic reporting of budgetary comparisons, and states:

Administration and implementation of an adopted budget ordinance shall be the responsibility of the executive authority of the city. That responsibility shall include the preparation and submission to the legislative body of operating statements which shall include budgetary comparisons of each governmental fund for which an annual budget has been adopted. These reports shall be submitted not less than once every three (3) months in each fiscal year.

Additionally, while one Commissioner expressed that the City's financial reporting to the Commission was sufficient for him, two other Commissioners expressed the desire to receive financial reports earlier so as to have time for a more thorough review. Such review promotes more engagement by Commissioners and can result in more efficient and effective meetings. It also allows for greater transparency and an opportunity for questions about the information to be presented and informed decisions made upon the information.

Recommendation

We recommend the City of Bedford provide budget to actual reporting at least every three months to the City Commission, as required by KRS 91A.030(11). Additionally, we recommend the City Clerk provide all financial reports and meeting packets to the Mayor and City Commission in advance of the monthly meeting to allow for a more thorough review and discussion.

Finding 7: The City Did Not Ensure Compliance with KRS 83A.060, Which Requires the City's Code of Ordinances to be Reviewed Once Every Five Years and for Ordinances and Orders to be Properly Maintained.

The City's code of ordinances has not been reviewed within the past five years as required by state law. Specifically, KRS 83A.060(11) states, "[a]t least once every five (5) years, each city shall cause all ordinances in the composite index or code of ordinances to be examined for consistency with state law and with one another and to be revised to eliminate redundant, obsolete, inconsistent, and invalid provisions." Instead, the City has only reviewed individual ordinances as issues arise. Additionally, KRS 83A.060 (8) requires all actions of a city legislative body, whether by ordinance or order, to become permanent records of the city and for ordinances to be indexed and maintained in the order adopted. As previously mentioned in Finding 1 of this report, City ordinances were not properly maintained and personnel policies adopted as an official order in late October 2017 could not be found.

KRS 83A.060 establishes the rules by which cities enact ordinances and how ordinances are to be maintained. A city's code of ordinances records actions taken by a city's legislative body and the ordinances, once established, become a permanent record of the city. Under this statute, cities are to keep their ordinances "in the minute book or an ordinance book in the order adopted and indexed in a composite index or maintained in a code of ordinances." Additionally, each city's code of ordinances is also to be reviewed once every five years to ensure that the ordinances are consistent with state laws that may have changed over time and make other needed updates. Both the current and former City Mayor noted that a full review of all City ordinances had not been performed to their knowledge, and specific ordinances were only examined when the need arose.

The City's need to properly maintain its ordinances and orders and conduct a review of its ordinances was evident during the examination. As described by Finding 1, City ordinances were not maintained in order and personnel policies adopted on October 26, 2017, and identified as an attachment to Municipal Order No.1 series 2017, could not be found, even though required by statute to be retained in the city's permanent records. Also, as noted in Finding 2 of this report, the City was unable to provide ordinances to evidence ad valorem tax rates adopted by the City for tax years 2016 and 2017. It is not known if those records were misfiled or did not exist.

Additionally, City Ordinance No. 8, Series 2018, setting the ad valorem tax rate for the 2018 tax year referenced its authority under a repealed statute.

The ordinance begins:

That pursuant to KRS 92.520, the City of Bedford, Kentucky, does hereby provide that the assessment made by the Property Valuation Administrator of the County of Trimble for state (sic) and County purposes shall be adopted as the assessment for City of Bedford purposes and that City tax bills shall be made from the county of Trimble list and the said Property Valuation Administrator's Boos

(sic) as provided in said section of the Kentucky Revised Statutes
(sic.)

KRS 92.520, which is cited by the City in this ordinance, was repealed on January 1, 2015, and was replaced by KRS 92.810. Ordinance No. 7, Series 2015 adopted by the City on June 16, 2015, which was the only other ordinance provided by the City to evidence passage of ad valorem tax rates between tax years 2015 and 2018, referenced the same outdated statute. The City's continued failure to cite the correct statutory authority for the ordinances' enactment raises a fundamental question as to the ordinances' validity.

Recommendations

We recommend the City of Bedford:

- Engage its attorney to review the City's full code of ordinances, as required by KRS 83A.060, to ensure the codes are consistent with state law and with one another.
- Properly maintain all City ordinances and orders in the manner prescribed by KRS 83A.060 (8).
- Relating to the City's ad valorem tax ordinances for tax years 2015 through 2018, the City of Bedford seek an Attorney General Opinion or court action to advise on or resolve the question of the validity of this tax and, if invalidity exists, what subsequent remedial measures are appropriate and allowable.

MAYOR'S RESPONSE

Mayor's Response

 <p>MAYOR JOE ROBINSON MAYOR.ROBINSON1968@ GMAIL.COM</p>	 <p>CITY OF BEDFORD P.O. Box 1 147 Victory Avenue Bedford, KY 40006</p>	 <p>Phone: (502) 255-3684 Fax: (502) 255-3222 http://www.cityofbedfordky@gmail.com</p>
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Thursday, October 22, 2020

Honorable Mike Harmon
Auditor of Public Accounts
Commonwealth of Kentucky
209 St. Clair Street
Frankfort, KY 40601

RE: Examination of Certain Financial Operations and Internal Policies and Controls of the City of Bedford

Honorable Mike Harmon,

On behalf of myself (Mayor Joe Robinson) as well as the commissioners for the city of Bedford, KY, please accept this letter in response to your draft report of the "Examination of Certain Financial Operations and Internal Policies and Controls of the City of Bedford. I received the draft report on October 21, 2020 and my response is due by Friday October 23, 2020 at 4:00 p.m.

Your findings in the report are deemed to be accurate and it pinpoints areas that have been lacking proper controls and supervision to which I had already been aware of and we are in the process of inserting policies and checks and balances to regain proper control of the city finances. Some of the issues that the report contained have already been addressed and we are working diligently to address ALL issues described in your report concerning the operations for the City of Bedford, KY.

It was a pleasant experience working with the employees from your office and they were truly knowledgeable and professional and extremely helpful. I apologize, that your team had to even come to our office for this mishap and we will work on the issues that you have brought to our attention.

 <p>MAYOR JOE ROBINSON MAYOR.ROBINSON1968@ GMAIL.COM</p>	 <p>P.O. Box 1 147 Victory Avenue Bedford, KY 40006</p>	 <p>Phone: (502) 255-3684 Fax: (502) 255-3222 http://www.cityofbedfordky@gmail.com</p>
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In closing I wish to express our appreciation on the very professional and thorough manner in which your staff conducted the examination of the City of Bedford, KY.



Thank You,
Mayor Joe Robinson
City of Bedford, KY
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